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# The Foreign Tax Credit for Individuals



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# Who is Eligible?

U.S. Citizens

Resident Aliens

Partners

Beneficiaries of Estate or Trust

Shareholders in S Corp

Nonresident Aliens

(in limited circumstances)



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# How is it Claimed?

Form 1040, Line 47

Form 1116

Unless:

- Only foreign passive income,
- Creditable foreign taxes of \$300 or less (\$600 or less if MFJ), and
- Received payee statement (1099, K-1)

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# What Tax Qualifies?

Income tax on foreign income

Legally owed and paid or accrued

Not imposed by sanctioned country

Not claimed as a deduction

Not on excluded income



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# No Credit on Excluded Income

## Formula for Amount Not Allowed:

$(\text{FEIE} / \text{FEI}) \times \text{Foreign Inc Tax} = \text{Not Allowed}$

$(\$ 91,500 / \$122,000) \times \$ 30,500 = \$ 22,875$

## Allowable Foreign Income Tax on FEI:

$\$ 30,500 - \$ 22,875 = \underline{\$ 7,625}$

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# Income Categories

Passive Category Income

General Category Income

Separate Form 1116 for Each Category



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# Limit on Credit

## FTC Limitation Formula

$$\frac{\$ 30,500 \text{ (Foreign Source T.I.)}}{\$ 50,500 \text{ (Worldwide T.I.)}} \times \$10,700 \text{ (US Tax)} = \$ 6,463$$

The \$ 7,625 allowable foreign tax is Limited to \$6,463

Limit Applied to Each Income Category

Carryback 1 Yr / Carryforward 10 Yrs

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# Form 1116, Part III

Form 1116 (2010)

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## Part III Figuring the Credit

9	Enter the amount from line 8. These are your total foreign taxes paid or accrued for the category of income checked above Part I . . . . .	9	30,500	
Reduction in foreign taxes (see instructions)		12	22,875	
12	Reduction in foreign taxes (see instructions)	12	22,875	
13	Subtract line 12 from line 11. This is the total amount of foreign taxes available for credit (see instructions) . . . . .	13	7,625	
14	Enter the amount from line 7. This is your taxable income or (loss) from sources outside the United States (before adjustments) for the category of income checked above Part I (see instructions) . . . . .	14	30,500	
15	Adjustments to line 14 (see instructions) . . . . .	15		
16	Combine the amounts on lines 14 and 15. This is your net foreign source taxable income. (If the result is zero or less, you have no foreign tax credit for the category of income you checked above Part I. Skip lines 17 through 21. However, if you are filing more than one Form 1116, you must complete line 19.) . . . . .	16	30,500	
17	<b>Individuals:</b> Enter the amount from Form 1040, line 41, or Form 1040NR, line 42. <b>Estates and trusts:</b> Enter the amount from Form 1041, Schedule G, line 1a, or the total of Form 990-T, lines 36 and 37 . . . . .	17		
Divide line 16 by line 17. If line 16 is more than line 17, enter "1" . . . . .		18	.6040	
18	Divide line 16 by line 17. If line 16 is more than line 17, enter "1" . . . . .	18	.6040	
19	<b>Individuals:</b> Enter the amount from Form 1040, line 44. If you are a nonresident alien, enter the amount from Form 1040NR, line 42. <b>Estates and trusts:</b> Enter the amount from Form 1041, Schedule G, line 1a, or the total of Form 990-T, lines 36 and 37 . . . . . <b>Caution:</b> If you are completing line 19 for separate category e (lump-sum distributions), see instructions.	19	10,700	
20	Multiply line 19 by line 18 (maximum amount of credit) . . . . .	20	6,463	
21	Enter the <b>smaller</b> of line 13 or line 20. If this is the only Form 1116 you are filing, skip lines 22 through 26 and enter this amount on line 27. Otherwise, complete the appropriate line in Part IV (see instructions) . . . . .	21	6,463	

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# Tax Treaties

Tax Treaties May Limit Credit

Example – Swiss Corporation

Withheld Tax on Dividends: 35%

Tax on Dividends per Treaty: 15%

Allowable foreign taxes based on 15%



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# Foreign Exchange Rates

## Part II Foreign Taxes Paid or Accrued (see instructions)

Country	Credit is claimed for taxes (you must check one) (h) <input checked="" type="checkbox"/> Paid (i) <input type="checkbox"/> Accrued	Foreign taxes paid or accrued								
		In foreign currency				In U.S. dollars				
		Taxes withheld at source on:			(n) Other foreign taxes paid or accrued	Taxes withheld at source on:			(r) Other foreign taxes paid or accrued	(s) Total foreign taxes paid or accrued (add cols. (o) through (r))
		(j) Date paid or accrued	(k) Dividends	(l) Rents and royalties	(m) Interest	(o) Dividends	(p) Rents and royalties	(q) Interest		
A		12/31/2010				305,000				30,500
B										
C										
8 Add lines A through C, column (s). Enter the total here and on line 9, page 2 . . . . . ►										8
										30,500

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 11440U

Form **1116** (2010)

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# Important to Know

Foreign Tax Redetermination

- Must Amend U.S. Return

Capital Gains / Losses

- Adjustments

Alternative Minimum Tax

- Separate Form 1116



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# Need Help?

Call International Customer Service

(267) 941-1000 (not toll free)

Mon.–Fri. 6:00 a.m.–11:00 p.m. EST

Check [www.irs.gov](http://www.irs.gov)

Keywords: Foreign Tax Credit

Helpful publications:

54, 514, 901

Form 1116 Instructions

